



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

Internal Audit Section

Carnahan Courthouse Building
1114 Market St., Room 642
St. Louis, Missouri 63101
(314) 622-4723
Fax: (314) 613-3004

DR. KENNETH M. STONE, CPA
Internal Audit Executive

September 23, 2010

Suzanne Wagener, Executive Director
Covenant House Missouri
2727 N. Kingshighway
St. Louis, MO 63115

RE: Covenant House Missouri (Project #2010-AHC11)

Dear Ms. Wagener:

Enclosed is a report of the fiscal monitoring review of Covenant House Missouri for the period January 1, 2009 through June 30, 2009. The scope of a fiscal monitoring review is less than an audit, and as such, we do not express an opinion on the financial operations of Covenant House Missouri. Fieldwork was completed on July 1, 2010.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the Affordable Housing Commission (AHC) to provide fiscal monitoring to all Affordable Housing grant or loan recipients.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Sincerely,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Angela Morton Conley, Executive Director, AHC
Theresa Hayden, Director of Finance, Covenant House Missouri



CITY OF ST. LOUIS

AFFORDABLE HOUSING COMMISSION (AHC)

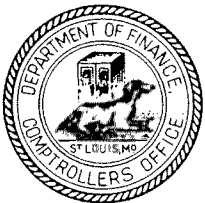
**COVENANT HOUSE MISSOURI
LOAN AGREEMENT #02-05FL**

**FISCAL MONITORING REVIEW
JANUARY 1, 2009 THROUGH JUNE 30, 2009**

PROJECT #2010-AHC11

DATE ISSUED: SEPTEMBER 23, 2010

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
AFFORDABLE HOUSING COMMISSION (AHC)
COVENANT HOUSE MISSOURI
FISCAL MONITORING REVIEW
JANUARY 1, 2009 THROUGH JUNE 30, 2009**

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INTRODUCTION

Background

Contract Name:	Covenant House Missouri
Loan Agreement Number:	02-05FL
Contract Period:	May 16, 2008 through May 16, 2038 (thirty years after the effective date of the agreement)
Contract Amount:	\$237,500

The loan agreement provided funds from the Affordable Housing Commission (AHC) to Covenant House Missouri (Developer) for construction of a youth center. The agreement is a 30-year forgivable loan for construction of 36 dwelling units. The agreement allows for 32 units to be rented to households with incomes at or below 20% of the St. Louis Area Median Income (AMI), and four (4) units to households at or below 30% of AMI.

Purpose

The purpose of the review was to determine the Developer's compliance with federal, state and local AHC requirements for the period January 1, 2009 through June 30, 2009 and make recommendations for improvements as considered necessary.

Scope and Methodology

Inquiries were made regarding the Developer's internal controls relating to the loan agreement and restrictive land use agreement administered by AHC. Evidence supporting the reports the Developer submitted to AHC was tested and other procedures were performed as considered necessary.

Exit Conference

An exit conference was offered to the Developer; however the Developer declined.

Management's Responses

The management's responses to the observation and recommendations identified in the draft report were received from the Agency on September 20, 2010. These responses have been incorporated into this report.

SUMMARY OF OBSERVATIONS

Conclusion

The Developer did not fully comply with local AHC requirements.

Status of Prior Observations

The Developer did not have any previous AHC fiscal monitoring reviews.

Summary of Current Observation

Recommendations were made for the following observation, which if implemented, could assist the Developer in fully complying with local AHC requirements.

Opportunity to comply with provisions of the loan agreement

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

Opportunity To Comply With Provisions Of The Loan Agreement

Covenant House Missouri (Developer) entered into a 30-year forgivable loan agreement for funds to construct a youth center with 36 dwelling units. The Internal Audit Section (IAS) found that the project's dwelling units were not used as rental property as required by the agreement.

Specifically, Section 8.1 of the loan agreement requires the Developer to:

- Maintain the project as rental property
- Maintain thirty six (36) income restricted units in the project
- Rent thirty-two (32) units or hold the units vacant and available for rental to households earning at or below 20% of the Area's Median Income (AMI)
- Rent four (4) units or hold the units vacant and available for rental to households earning at or below 30% of AMI

Upon inquiry, the Developer stated that the units were never intended to be rented and occupants of the youth center were not charged. Occupants were only provided with temporary (emergency shelter and transitional supportive housing) living quarters. It appeared that the loan agreement form used by Affordable Housing Commission (AHC) and the Developer was designed for loans funding construction or rehabilitation of rental housing, rather than temporary dwelling units.

The requirement to maintain the rehabilitation project as rental property, rather than the Developer's actual use as temporary housing, has the potential to promote future confusion. Section 8.2 of the agreement, "Violation of Restrictions", states that the Developer's failure to comply with the restrictions shall result in the outstanding balance of the Note being declared immediately due and payable.

Recommendation

It is recommended that the Developer comply with the provisions of the contract. It is also recommended that the Developer:

- Discuss the implications of non-compliance with AHC
- Seek revision(s) to the agreement based on current or changing circumstances of the center's operations
- Document any revision(s) in writing

Management's Responses

In response to your draft audit sent to us September 16, 2010, Covenant House Missouri is addressing the observation that our facility is neither currently nor has been previously used as rental property to our youth occupants, as required in the forgivable loan agreement.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

We have requested from the Affordable Housing Commission, an amendment to the loan agreement document stating Covenant House Missouri is not required to use the property as rental property to our youth occupants, thus eliminating a "Violation of Restrictions" issue. A copy of the letter to the Affordable Housing Commission is enclosed.

We are awaiting a reply from the Affordable Housing Commission, which will be forwarded to you upon receipt.